1. The table below provides actual data for Sweden.
   a) Use the information in the table to sketch an IS-LM diagram (one diagram, with all the lines) showing the positions of the IS and LM curves in each of these three years.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Interest Rate</th>
<th>Govt. Purchases</th>
<th>Money Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>1310.5</td>
<td>3.83</td>
<td>524.7</td>
<td>619.0</td>
</tr>
<tr>
<td>1990</td>
<td>1359.9</td>
<td>3.76</td>
<td>554.8</td>
<td>637.6</td>
</tr>
<tr>
<td>1992</td>
<td>1314.8</td>
<td>10.1</td>
<td>591.6</td>
<td>609.7</td>
</tr>
</tbody>
</table>

Note: All quantities are measured in real terms
Data Source: International Financial Statistics, July 1994, International Monetary Fund

b) Discuss briefly the role that monetary and/or fiscal policies played in the changes in output and the interest rate between 1988-1990 and 1990-1992 (using only the data provided here).

2. Consider a policy to increase investment. In particular, because of fears that too great a stimulus to output will lead to inflation (something we will talk about more as we progress through the course), suppose that the policy is aimed at increasing investment while keeping output constant.

   a) What mix of fiscal and monetary policies would achieve this goal, according to the IS-LM model? Show the effect graphically. Explain what would happen to each of the components of expenditure.

   b) Consider an alternative policy to increase output and maintain (the same level of) investment. What combination of monetary and fiscal policies would achieve this goal (and show them graphically)? What adjustments in the composition of expenditure would take place?

3. Explain briefly and display graphically in the IS-LM model the following quotation: “…the government has…put into place the conditions for an upturn…the government last month delivered the largest monetary and fiscal boost in modern Japanese history.” (Financial Times, Oct. 16, 1995)

4. Explain briefly and display graphically in the IS-LM model the following quotation: “The income-tax cuts heralded earlier this month by Alain Juppe, the prime minister [of France] were designed to tickle up consumers and boost [GDP].” (The Economist, Sept. 21, 1996) Note: “tickle up” means “make more active” in this context.

5. Explain briefly and display graphically in the IS-LM model the following quotation: “In April [the Japanese government] raised the consumption tax…[and] rescinded an income-tax rebate…[T]his contributed to the dismal GDP figures.” (The Economist, Sept. 20, 1997)

6. Explain briefly and display graphically in the IS-LM model the following quotation: “in the short run, deficit reduction should not cause growth to slow, provided…the Federal Reserve responds with an appropriately accommodative monetary policy.” (Economic Report of the President, 1997)

7. The US Congress is currently debating the costs and benefits of various (second stage) stimulus measures. One of the scenarios provides permanent reductions in corporate tax rates and brings forward planned (permanent) cuts in income taxes, as well as providing temporary tax rebates for those with low-incomes. What are the likely implications of this approach to stimulating an economy? What recommendations can you make on the design of a stimulus package that will ensure the biggest boost to GDP at the least (economic) cost?